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Order 2001-6-16
Served: June 25, 2001

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 20th day of June, 2001

Essential Air Service at
Burlington, Iowa
under 49 U.S.C. 41731 *et seq.*

Docket OST-2001-8731 – 18

ORDER SELECTING CARRIER AND SETTING FINAL RATE

SUMMARY
By this order, the Department is selecting Corporate Airlines, Inc. (Corporate), to provide essential air service at Burlington, Iowa, for a two-year period beginning on or about July 15, 2001, at an annual subsidy rate of $929,085. Appendix A shows a map of Burlington and its proximity to the hubs at Chicago and St. Louis, and to other commercial service airports in the region.

BACKGROUND
On January 18, 2001, Corporate Airlines, Inc., d/b/a Trans World Express, filed a 90-day notice of its intent to terminate scheduled air service at Burlington, Iowa. On March 6, 2001, the Department issued Order 2001-3-6 that (a) required the carrier to maintain its current service for 30 days beyond the end of the 90-day notice period, through May 16, 2001;[1] and (b) requested proposals from any carrier interested in providing replacement service at Burlington, with subsidy if necessary.

[1] We have extended Corporate's obligation to continue to serve Burlington by a series of 30-day, hold-in orders pursuant to 49 U.S.C. 41734, most recently by Order 2001-6-6, served June 15, 2001, extending their obligation through July 16, 2001.

Prior to January 18, 2001, the date Corporate filed the 90-day notice described above, the community also received unsubsidized service from Great Lakes Aviation, Ltd., d/b/a United Express. Great Lakes had provided service to the United Air Lines' hub at Chicago O'Hare International Airport until it also filed a 90-day notice on November 15, 2000, seeking to be relieved of its responsibility to provide Essential Air Service (EAS) to Burlington. By Order 2000-12-22, the Department allowed Great Lakes to suspend its Burlington-Chicago service after February 15, 2001, relying on Corporate Airline's then subsidy-free service to St. Louis to provide the community's link to the Nation's air transportation system as required under the EAS program.

Corporate Airlines' current service to Burlington consists of four weekday and six weekend round trips to St. Louis, all operated nonstop, using 19-passenger, Jetstream 32 aircraft.[2]

Until recent increases in operating costs (fuel, labor, training, safety, security, and others), that have affected all commuter and regional airlines, both Great Lakes and Corporate Airlines had been able to provide service at Burlington without the need for subsidy.

In reviewing the service and passenger traffic history at Burlington, we noted in particular that the number of passengers using the local airport has not been growing at a rate sufficient enough to allow two carriers to serve the community without at least one carrier, and perhaps both, incurring operating losses.

CARRIER PROPOSALS

In response to our request for proposals, Corporate Airlines filed two options to serve Burlington. Corporate's options for Burlington offer either three or four nonstop round trips a day, with reduced service over the weekend, to the Trans World Airlines (TWA, now American Airlines) hub at St. Louis using its 19-seat Jetstream 32 aircraft. Corporate's Option A offers 18 weekly round trips at an annual cost of $929,085. Corporate's Option B offers 24 weekly round trip flights at an annual cost of $1,075,876. Again, Corporate was the only airline to respond to our request for proposals.

COMMUNITY COMMENTS

By telephone and correspondence, the airport manager and at least one business member of the Burlington community advised the Department that the local communities in the region are very supportive of the existing services as well as the proposals submitted by Corporate Airlines. In addition, about 40 members of the Burlington business community and civic leaders met with Department staff to express the importance of air service to their community. In particular, they endorsed Corporate's proposed service option of 24 weekly nonstop round trips in the Burlington–St. Louis market.

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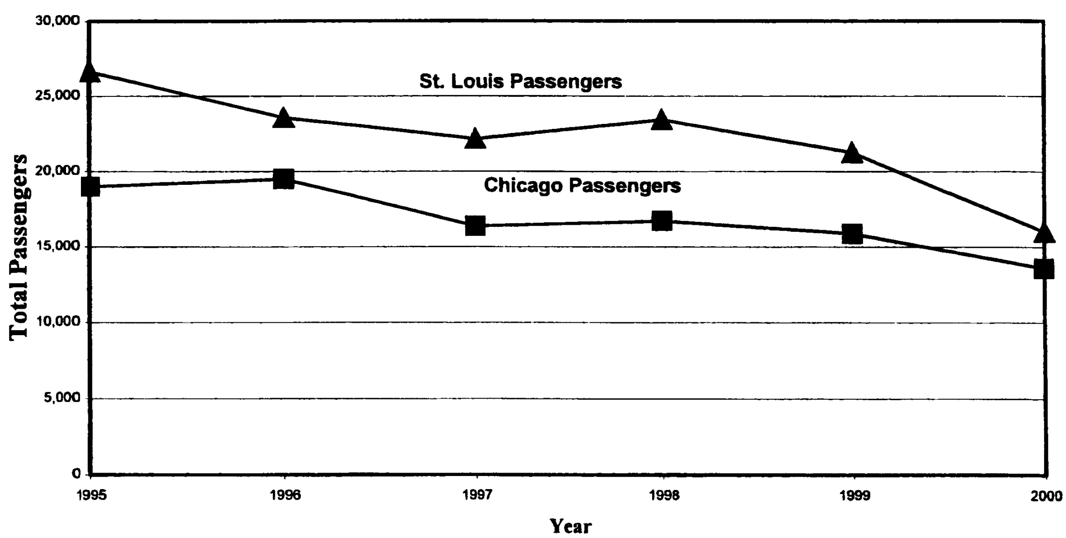
[2] Source: OAG Flight Guide, June 2001.

DECISION
We have decided to select Corporate's three-round-trip-a-day option to serve Burlington to the TWA/American Airlines hub at St. Louis.

Burlington is relatively close to the airports at Des Moines (160 highway miles), Cedar Rapids (98 miles), and Moline, Illinois (75 miles). These alternative airports provide residents a number of options from which to choose, including some low-fare service from Moline. All of these communities offer jet service in some markets, and as a nearby example of the impact of regional jet service, Des Moines has new (June 1, 2001) non-stop regional jet service to Delta Air Lines' hub at Salt Lake City, and Northwest recently announced that it would soon inaugurate new regional jet service from Moline to Minneapolis.

The proximity of low-fare service can have serious detrimental effects on the local traffic generating capability of communities that, because of their small size, can only be served economically with smaller aircraft. As a result, it is becoming increasingly difficult to provide frequent, reasonable priced service to small communities located within a reasonable drive of low-fare service.

Airline Passenger Demand at Burlington, Iowa



In reviewing the historical passenger traffic at Burlington, we note that the community generated an average of approximately 22,150 passengers a year in the St. Louis market from 1995 through 2000. Essential Air Service communities generating that high a passenger level have historically been served on a subsidy-free basis. We are also aware that airline operating costs have been rising so rapidly industry-wide that it has become extremely difficult to serve many smaller markets profitably. As a result, we have had an increasing number of incumbent carriers filing notice to suspend service at relatively large traffic-generating communities. We also note that the market has been somewhat traumatized over the last year or so. First, as a part of a larger corporate shake-up regarding its relationship with Trans World Airlines (TWA -- its code-share partner), Trans States announced its intent to suspend its Burlington – St. Louis service. Corporate Airlines, another TWA code-share partner, took over the route from Trans States on May 8, 2000. Then on November 15, 2000, Great Lakes Aviation, as noted earlier, filed notice to suspend its Burlington – Chicago service, injecting further uncertainty as to the future of the community's air service. These uncertainties, as well as earlier reported service irregularities, generally resulted in a decline in passenger traffic as, for example, travel agents may be reluctant to book passengers out of the local airport, but rather may tend to use the nearest larger airport – either Des Moines or Moline in this case. We expect that by providing the certainty of a two-year subsidized contract the market will stabilize and begin to rebuild and that the need for any subsidy at the end of the two-year contract will be significantly lower.

Corporate's three-round-trip-a-day proposal should provide sufficient capacity to accommodate Burlington 's historical St. Louis traffic at reasonable load factors. With three weekday roundtrips, or a total of 18 weekly round trip flights, Corporate will be scheduling a total of 35,568 seats in the market annually. This should be a sufficient number of seats to accommodate the 22,150 average number of Burlington – St. Louis passengers that the community has generated over the years at reasonable average load factors. As a for-profit enterprise, we fully expect Corporate to respond to the expected passenger demand in the community and provide sufficient capacity to accommodate demand if it exceeds its own forecasts. Moreover, we fully expect that a cooperative effort on the part of the Burlington community and Corporate Airlines will pave the way to bringing the market back to the point of self-sufficiency within a relatively short period of time.

Therefore, while Corporate is not required to provide service above the three-weekday-round trip level we require here, it can always do so in an effort to better serve the community or in an effort to more fully develop the market. Our annual subsidy rate of $929, 085 should provide a solid basis to accomplish that objective.

CARRIER FITNESS

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Corporate Airlines was found by the Department to be fit, willing and able to engage in scheduled passenger operations as a commuter air carrier by Order 95-8-2, issued August 2, 1995. Most recently, in Order 2001-3-21, March 26, 2001, the Department found that Corporate Airlines continues to be fit to operate as a commuter air carrier and is capable of providing reliable essential air service at Owensboro, Kentucky, and

Jackson, Tennessee. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. While preparing that Order, the Department discussed the operational fitness of Corporate Airlines with the FAA's Flight Standards District Office in Nashville. The FAA advised us then that the carrier continues to conduct its operations in accordance with all regulations, and that it knew of no reason why we should not find that Corporate Airlines remains fit and can continue to be relied on to provide reliable essential air service. Based on the above, we find that Corporate Airlines is fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department selects Corporate Airlines, Inc., to provide essential air service at Burlington, Iowa, as described in Appendix B, for the two-year period beginning on or about July15, 2001, and in no event later than 45-days from the service date of this order;

2. The Department sets the final rate of compensation for Corporate Airlines, Inc., for the provision of essential air service at Burlington, Iowa, as described in Appendix B, for the two-year period beginning on or about July 15, 2001, and in no event later than 45-days from the service date of this order, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by $508.81;[3]

3. We direct Corporate Airlines, Inc., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

4. We find that Corporate Airlines, Inc., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Burlington, Iowa;

5. This docket will remain open until further order of the Department; and

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[3] See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

6. We will serve a copy of this order on the Mayor and Airport Manager of Burlington, Iowa, the Governor of Iowa, and the aviation staff of the Iowa Department of Transportation.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at http://dms.dot.gov/

Appendix A

Area Map

SUBSIDY CALCULATION FOR
OPTION A - 18 WEEKLY ROUND TRIP FLIGHTS
CORPORATE AIRLINES, INC.
AT BURLINGTON, IOWA

Aircraft Type	Jetstream 32
Annual Block Hours 1/	1,826
Annual O&D Passengers	13,010
Average Net Fare	$90
Passenger Revenue	$1,170,900
Freight Revenue @ 0.5%	5,855
Total Revenues	$1,176,755
Flight Crew/Training @ $183.51/hr.	$335,089
Fuel, Oil, & Into-Plane fees @ $174.90/hr.	319,367
Aircraft Maintenance @ $213.41/hr.	389,687
Aircraft Lease @ $71.77/hr.	131,052
Aircraft Hull & Liability Insurance @ $53.01/hr.	96,796
Total Direct Costs 2/	$1,271,991
BRL Station Costs	$195,760
STL Station Costs @ $161.87/turn 3/	147,787
BRL Landing Fees @ $11.71/turn 3/	10,691
STL Landing Fees @ $33.40/turn 3/	30,494
Commissions/Credit Card Fees @ 4.72% of rev.	55,266
Reservations & CRS Fees @ $6.60/pax	85,866
Advertising	15,000
General & Administration. @ 15.15% of Direct 4/	192,707
Total Indirect Costs	$733,571
Total Operating Expenses	$2,005,562
Return @ 5% of Expenses	$100,278
Total Economic Cost	$2,105,840
Annual subsidy need at a 97.5% completion factor	$929,085

1/ 36 flights/week x 52 weeks x .975 completion factor x 1.00 hour (60 minutes) = 1,825.2 or 1,826 hours.
2/ / Unit costs based on system experience for year ended 12/31/00, except fuel, which is based on the average of fuel purchased (cost and consumption rate) at STL and BRL for the month of February 2001, including into-plane fees: Jetstream 32 -- $1.59 per gallon & 110 gap or gallons per hour.
3/ 18 landings/week x 52 weeks x .975 (completion factor) = 912.6 or 913 turns or landings.
4/ Unit costs based on system experience for the year ended 12/31/00. 36 flights/week x 52 weeks x .975 x 147 miles x 19 seats = 5,100,018 ASM's or Available Seat Miles.

SUBSIDY CALCULATION FOR
OPTION B - 24 WEEKLY ROUND TRIP FLIGHTS
CORPORATE AIRLINES, INC.
AT BURLINGTON, IOWA

Aircraft Type	Jetstream 32
Annual Block Hours 1/	2,434
Annual O&D Passengers	18,498
Average Net Fare	$90
Passenger Revenue	$1,664,820
Freight Revenue @ 0.5%	8,324
Total Revenues	$1,673,144
Flight Crew, Incl. Training @ $183.51/hr.	$446,663
Fuel, Oil, & Into-Plane fees @ $174.90/hr.	425,707
Aircraft Maintenance @ $213.41/hr.	519,440
Aircraft Lease @ $71.77/hr.	174,688
Aircraft Hull & Liability Insurance @ $53.01/hr.	129,026
Total Direct Costs 2/	$1,695,524
BRL Station Costs	$202,160
STL Station Costs @$158.58/turn 3/	192,992
BRL Ldg. Fees @ $11.71/turn 3/	14,251
STL Ldg. Fees @ $33.40/turn 3/	40,648
Commissions/Credit Card Fees @ 4.72% of rev.	78,580
Reservations, CRS Fees, other @ $6.60/pax	122,087
Advertising	15,000
General. & Administration @ 15.15% of Direct Cost 4/	256,872
Total Indirect Costs	$922,590
Total Operating Expenses	$2,618,114
Return @ 5% of Expenses	$130,906
Total Economic Cost	$2,749,020
Annual subsidy need at a 97.5% completion factor	$1,075,876

1/ 48 flights/week x 52 weeks x .975 completion factor x 1.0 hour (60 minutes) = 2,434 annual block hours.
2/ Unit costs based on system experience for year ended 12/31/00, except fuel, which is based on the average cost of fuel purchased (cost and consumption rate) at STL and BRL for the month of February 2001, and includes into-plane fees: Jetstream 32 -- $1.59 per gallon & 110 gph or gallons per hour.
3/ 24 landings/week x 52 weeks x .975 (completion factor) = 1,217 turns or landings per year.
4/ Unit costs based on system experience for the year ended 12/31/00. 48 flights/week x 52 weeks x .975 x 147 miles x 19 seats = 6,798,162 ASM's or Available Seat Miles.

CORPORATE AIRLINES, INC.
OPTION A - 18 WEEKLY ROUND TRIP FLIGHTS
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
BURLINGTON, IOWA

Effective Period:	Two-year period beginning on July 15, 2001
Service:	Eighteen nonstop round trips each week to St. Louis
Aircraft:	Jetstream 32 (19-seat)
Timing of Flights:	Flights must be well timed and well spaced to ensure full compensation.
Subsidy Rate:	Per year - $929,085 Per flight - $508.81 [1]

Weekly Compensation Ceiling: $18,317.16 [2]

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parities to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

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[1] Annual compensation of $929,085, divided by the estimated number of annual completed flights (1,826), calculated as follows: number of flights per week (36) x 52 weeks = 1,872 x's .975 (completion factor) = 1,826.

[2] The subsidy rate per flight ($508.81) multiplied by the number of scheduled subsidy-eligible flights per week (36).

CORPORATE AIRLINES, INC.
OPTION B - 24 WEEKLY ROUND TRIP FLIGHTS
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
BURLINGTON, IOWA

Effective Period: Two-year period beginning on July 15, 2001

Service: Twenty-four nonstop round trips each week to St. Louis

Aircraft: Jetstream 32 (19-seat)

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: Per year - $1,075,876
Per flight - $442.02 [3]

Weekly Compensation Ceiling: $21,216.96 [4]

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

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[3] Annual compensation of $1,075,876, divided by the estimated number of annual completed flights (2,434), calculated as follows: number of flights per week (48) x 52 weeks = 2,496 x's .975 (completion factor) = 2,434.

[4] The subsidy rate per flight ($442.02) multiplied by the number of scheduled subsidy-eligible flights per week (48).